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FINANCIAL SITUATION OF UNIDO

Report on the 6 per cent figure set as a regular budget ceiling for technical cooperation activities

Submitted by the Director-General

Summary

In compliance with Board decision IDB.13/Dec.14, provides information on the advantages and disadvantages of the 6 per cent figure set as a regular budget ceiling for technical cooperation activities, as well as of alternative arrangements.

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Introduction

1. In its decision IDB.13/Dec.14, paragraph (f), the Industrial Development Board requested the Director-General to prepare a study on the advantages and disadvantages of the 6 per cent figure set as a regular budget ceiling for technical cooperation activities, as well as of alternative arrangements, so that it could be considered by the Industrial Development Board at its fourteenth session, after examination by the Programme and Budget Committee at its eleventh session. It was further requested that, in preparing the study, paragraph (i) of the same decision should also be taken into account. In that paragraph the Board approved a ceiling for the regular budget for the biennium 1996-1997, representing zero real growth as compared with the biennium 1994-1995, without prejudice to appropriations to be adjusted according to financial regulation 5.2.

I. ORIGIN AND LEGAL STATUS

2. Annex II of the Constitution of UNIDO provides the legal framework for the utilization of the regular budget resources of the Organization. Paragraph B of Annex II covers technical cooperation activities and states:

> "In order to improve the effectiveness of the Organization's programme of work in the field of industrial development, the regular budget shall also finance other activities heretofore financed out of Section 15 of the United Nations regular budget, in the amount of 6 per cent of the total of the regular budget. These activities shall strengthen the Organization's contribution to the United Nations development system taking into account the importance of utilizing the United Nations Development Programme country programming process, which is subject to the consent of the countries concerned, as a frame of reference for these activities."

3. The utilization of regular budget resources for technical cooperation activities dates back to 1967, when the General Assembly, in its resolution 2298 (XXII), endorsed resolution 2(I) of the first session of the Industrial Development Board. That resolution called for the establishment of a separate section in the budget of the United Nations to provide for the programme of technical assistance in industrial development at an appropriate level commensurate with the expanding requirements of the developing countries. The aim was to complement assistance available to developing countries under other programmes. In particular, it was to be used for innovative and catalytic activities with a demonstrated multiplier effect and in accordance with the development needs and priorities of individual beneficiary countries.

4. From 1968 until the end of 1985, when UNIDO became a specialized agency, the United Nations budget regularly contained a separate component, which came to be known as the UNIDO Regular Programme of Technical Cooperation. During that period its level was kept as a fairly constant share of the total regular budget resources of UNIDO, but without the limitations of a fixed percentage rate.

5. During the extensive negotiations preceding the approval by Member States of the Constitution of UNIDO as a specialized agency, many representatives made strong statements of principle to the effect that technical cooperation activities should be financed from voluntary contributions. By way of compromise, the 6 per cent rule contained in Annex II, paragraph B, of the Constitution was finally agreed upon.

6. The provisions of Annex II are an integral part of the UNIDO Constitution, and are specifically referred to in paragraph 3 of Article 13 dealing with the composition of the regular budget. Legal procedures for amendment of the Constitution are stipulated in Article 23, which states in particular that an amendment shall come into force and be binding on all Members when: (a) it is recommended by the Board to the General Conference by a two-thirds majority of all members of the Board; (b) it is approved by the General Conference by a two-thirds majority of all Members; and (c) three-fourths of the Members of UNIDO have deposited instruments of ratification, acceptance or approval of the amendment with the Depositary.

II. PRACTICES IN OTHER ORGANIZATIONS

7. For the purpose of the present report, equivalent rules and practices of the following organizations have been reviewed: Food and Agriculture Organization of the United Nations (FAO), International Atomic Energy Agency (IAEA), International Labour Organisation (ILO), United Nations, United Nations Educational, Scientific and Cultural Organization (UNESCO) and World Health Organization (WHO). An analysis of the most recent documentation shows the following picture.

FAO

8. The regular budget-financed Technical Cooperation Programme (TCP) was created in 1976 for the purpose of responding speedily to urgent or unexpected needs of member countries. Further main characteristics are: limited project duration, low cost, practical orientation, and catalytic or complementary relationship with other sources of assistance. Main categories of assistance include training, advisory services, emergency assistance, programming and project formulation and support to technical cooperation among developing countries.

Total TCP resources within the FAO regular budget amounted to $77.4 million (11.4 per cent) in 1992-1993 and $75.5 million (11.2 per cent) in 1994-1995. The reduction was caused by the decision to deduct the costs of the TCP liaison unit at FAO headquarters from the overall TCP budget.

IAEA

9. The technical cooperation activities of IAEA are entirely financed from voluntary contributions to its Technical Assistance and Cooperation Fund.

ILO

10. The regular budget of ILO contains a regular budget technical cooperation (RBTC) provision which is used for technical cooperation field projects as well as for financing the staff and non-staff costs of 14 multi-disciplinary advisory teams stationed in the following regions: five in Africa, four in the Americas, one in Arab States, three in Asia and the Pacific and one in Europe. The total RBTC shown in the ILO regular budget amounted to $73.7 million (9.9 per cent) in 1994-1995 and is estimated to be $73.6 million (10.7 per cent) for 1996-1997.

United Nations

11. Based on General Assembly resolution 2514 (XXIV) of November 1969, the biennial regular budget of the United Nations contains a provision for the United Nations regular programme of technical cooperation, which is not defined by a fixed percentage, but kept at comparable constant levels ($40.1 million in 1992-1993 and $45.4 million in 1994-1995). The programme provides funding for activities with a demonstrated multiplier effect likely to have a significant impact on the development process, is to be used in particular for innovative and catalytic activities and is divided into sectoral advisory services and regional and subregional advisory services.

UNESCO

12. The regular budget does not contain a specific allocation for technical cooperation activities. Notable is, however, a relatively high share of non-staff resources ($207.1 million of a total regular budget of $455.5 million in 1994-1995) and a correspondingly large programme of field activities, particularly the "participation programme" (usually in the form of advisory services, fellowships and study grants, equipment and emergency assistance). Regular budget resources are also used as seed money and for preparatory activities.

WHO

13. The regular budget of WHO also does not contain a specific technical cooperation allocation. However, out of a total regular budget of $872.5 million for 1994-1995, $319.4 million (37 per cent) is foreseen for country and intercountry activities, for which detailed budgeting in the programme and budget document is not required and whose implementation is mostly ensured by the large WHO field network. Minor allocations ($2.5 million in 1994-1995) are earmarked for fellowships and study grants.

14. Similar arrangements prevail in the regular budgets of smaller United Nations agencies. In conclusion it can be stated that most United Nations organizations finance certain technical cooperation activities from their regular budgets, whereby the size of allocations depends on the specific nature of activities of those organizations. In none of the organizations studied were the technical cooperation allocations in the regular budget limited by constitutional provisions.

III. PROGRAMMING CRITERIA AND APPROVAL PROCEDURES FOR THE UNIDO REGULAR PROGRAMME OF TECHNICAL COOPERATION

15. Since the inception of the Regular Programme in 1967 as well as following the conversion of UNIDO into a specialized agency in 1986 until the end of the biennium 1992-1993, the resources appropriated for the Regular Programme were allocated mainly for projects and programmes in the following areas: individual fellowships, group training programmes, establishment and strengthening of training facilities, cooperation among developing countries, special needs of least developed countries, consultations with Governments, special regional programmes (1992-1993 only) and the Industrial Development Decade for Africa (IDDA) (since 1984-1985). Prior to 1986, the Regular Programme had also provided the financing for UNIDO Regional and Interregional Advisers, which have subsequently been included in the regular budget of the Organization.

16. As of May 1993, the Programme and Project Review Committee (PPRC) - the UNIDO approving authority for individual Regular Programme projects - decided to reallocate 8 per cent of the total 1992-1993 Regular Programme appropriation as seed money for medium-term plan priorities, to be used primarily for preparatory activities and preparatory assistance projects aimed at generating additional financial resources for technical cooperation projects. This measure was the

first step towards changing the traditional approach in the use of Regular Programme resources.

17. In conformity with the principles governing the restructuring of UNIDO, at the beginning of 1994 the criteria governing the use of Regular Programme resources in the 1994-1995 programme and budgets (GC.5/14/Rev.1, para. 9.5) were stated as follows:

(a) Preparatory ("up front") activities and preparatory assistance projects along the lines of the programming criteria for the general convertible segment of the Industrial Development Fund. These activities contribute to the preparation of projects in conformity with the established quality criteria relevance, cost-effectiveness and sustainability so as to generate additional financial resources;

(b) Technical cooperation projects addressing well-identified industrial development needs with the primary focus on the provision of expertise and direct training;

(c) Promotional projects aimed at technology transfer, industrial investment, human resource development and intercountry cooperation, *inter alia*, through seminars, workshops and training courses.

18. The PPRC further decided that, within upstream activities, the development of subsectoral and thematic programmes as well as the elaboration of UNIDO country support strategies should receive special attention.

19. In the draft programme and budgets 1996-1997, it is proposed that Regular Programme funds be used for activities with a "seed money" character to help mobilize additional resources, for support to special regional and sectoral/subsectoral intercountry projects, and as a means to respond flexibly to urgent short-term requirements for policy and technical advisory services (IDB.14/2-PBC.11/2, paras. 9.4-9.6). As in the preceding bienniums, IDDA-related technical cooperation activities are to support sustainable industrial development of African countries and strengthen the contribution of industry to economic integration at the national, sub-regional and regional levels, in accordance with the goals of the Second IDDA.

20. Since 1986, the IDDA component of the Regular Programme has been complemented by supplementary activities in support of IDDA, also financed from the regular budget of the Organization (not included in the Regular Programme). It not only finances short-term technical advisory services, but also provides for consultant services, expert group meetings and staff travel in support of the priorities and main objectives of the IDDA programme. Details are provided in the respective programme and budget documents of the Organization.

21. Projects financed under the Regular Programme are developed following the procedures set up in Director-General's Bulletin UNIDO/DG/B.177 and are subject to approval by PPRC, which also monitors the utilization of the programme's resources on a monthly basis. An innovative approach was introduced during the present biennium for programming of Regular Programme funds based on the UNIDO reform principles of transparency, decentralization and accountability. PPRC recommended that the scarce Regular Programme resources be utilized in a strategic manner, i.e. for programmes and projects that could lead to resource mobilization and to enhancing the quality and strength of the UNIDO priority fields of expertise.

22. The Regular Programme funds were decentralized and apportioned to support the individual substantive divisions as follows: the Country Strategy and Programme Development Division was given responsibility to develop projects in support of the regional programmes for Asia and the Pacific, Europe, Latin America and the Caribbean, the Arab States and the Industrial Development Decade for Africa (IDDA); the four technical divisions were requested to focus on global and interregional activities for upstream and analytical work to support programme priorities and development objectives, including assistance to least developed countries.

23. The new decentralized programming procedure has given the substantive divisions the necessary tools for orienting and planning their technical cooperation-related activities towards specific priorities, thereby supplementing activities carried out under regular budget funds. Substantive control, financial monitoring and complementary use of funds has been consistently ensured by PPRC.

IV. ROLE AND IMPACT OF THE REGULAR PROGRAMME OF TECHNICAL COOPERATION

24. The new approach in programming Regular Programme resources, as initiated for the current biennium and also proposed in the draft programme and budgets 1996-1997, is fully in line with the new management and prioritization efforts of UNIDO and provides the Organization with freely programmable, convertible resources for technical cooperation activities in areas of comparative advantage and recognized expertise. At the same time it is noted with concern that in view of the decline in resources made available from the

United Nations Development Programme and the stagnation in funding levels from other development financing sources, the share of Regular Programme-financed projects is increasing in relation to the overall level of UNIDO technical cooperation delivery (from 3 per cent in 1986-1987 to over 5 per cent in 1995).

25. The review of the Regular Programme should thus be seen within the framework of the present situation of the Organization, which requires the mobilization of alternative financing to enable UNIDO to translate its mandates and priorities into concrete action and to perform its function as a specialized agency with significant technical cooperation programmes.

26. The technical cooperation activities of UNIDO are constrained by the size and priorities of special-purpose contributions. While the Secretariat will follow a proactive approach to ensure equitable geographical distribution of funds and implementation of priorities (see document IDB.14/5-PBC.11/6), additional extrabudgetary resources would need to be mobilized, *inter alia*, through complementary "seed money" funding from the Regular Programme.

Quality management principles for programme/project development

27. UNIDO is committed to ensuring the quality of its programmes and projects. Modern methodologies for programme and project planning have been developed and increasingly applied, based on a participatory approach involving all stakeholders to ensure relevance, sustainability and effective capacity-building in the recipient countries. As clearly indicated by a recent expert group meeting convened by UNIDO, most donor, international and financial agencies, as well as enterprises, have introduced similar quality systems based on total quality management (TQM) aiming at client satisfaction. Such methods require increased up-front investments to prepare projects. Recent studies confirm that the higher the investment in project preparation, the lower the costs incurred later for corrective measures during implementation.

28. UNIDO's own experience leads to similar conclusions. As mentioned in document IDB.14/5-PBC.11/6, a review of UNIDO "success stories" shows that the endeavours that had the highest impact were those where adequate resources had been invested in project preparation. Only through thorough programme design will UNIDO services in future be of relevance to developing countries and attract donor funding.

Co-financing

29. Developing countries and countries in transition will measure the relevance of UNIDO and the progress of the reform, *inter alia*, on the basis of the results achieved in terms of funds mobilization to meet their growing demand for industrial cooperation. In order to be successful in this endeavour, not only "seed money" for project preparation will be required, but also financial resources for co-funded programmes and projects. The principle of co-financing is prevailing within the United Nations system and among bilateral donors as well. The dynamic co-funding approach of UNDP is well known; access to global inter-agency specialized programmes, such as the Global Environment Facility, can be greatly facilitated by the availability of co-funding contributions. The same principle applies to cooperation with development finance institutions, as well as with an increasing number of bilateral assistance programmes.

Adjusting to a changing environment

30. Through the ongoing reform process, the Secretariat is endeavouring to meet the demand for services in a selective and systematic manner and to anticipate trends in demand and global, industry-related developments. Dialogue and continuous consultations with high-level external expertise will be necessary for UNIDO to strengthen its capabilities as a global industry-related "centre of excellence". Within the framework of reform, the analytical and normative functions of UNIDO that are of a global nature will be further developed. Furthermore, UNIDO envisages strengthening its role as a forum for dialogue between countries and regions, boosting networking and cross-fertilization of experience on key industry-related issues.

V. OPTIONS AND IMPLICATIONS

31. The main issue confronting UNIDO remains the overall lack of financial resources for the Organization to be able to meet the demand of developing countries for its services. This is exacerbated by the shortage of programmable resources that can be used flexibly as "seed money". The current level of pledges to the general-purpose convertible segment of the Industrial Development Fund is insufficient to support the required programme and project development.

32. The issue of the 6 per cent share needs to be seen in the context of longer-term considerations of future

programmes and priorities. Examples of this are the proposals to increase regular budget financing of a stronger field representation, and to further strengthen substantive programmes through redeployment of resources from administrative and other support programmes.

33. In this context, it is important to recall that, since the establishment of UNIDO as a specialized agency, its regular budget has been subject to zero real growth. In a continued zero real growth scenario, any increase in the percentage share of the Regular Programme could be realized only by corresponding reductions in other specific programmes.

34. On the basis of the arguments elaborated in the present report, at this stage two options can be summarized as follows.

(a) **Option 1: Maintaining the 6 per cent share**

Bearing in mind the criteria governing the use of Regular Programme resources as described in chapter III above, this option would enable the Organization to continue its efforts to mobilize additional extra-budgetary resources through "seed money" programming in full accordance with the medium-term plan development objectives and special considerations and concentration on the seven priority programmatic themes proposed in the draft programme and budgets, 1996-1997 (IDB.14/2-PBC.11/2).

(b) **Option 2: Eliminating the 6 per cent ceiling from the Constitution**

This option would enable the Organization to react with a greater flexibility to changing levels and patterns of demand for its services by changing the share of the Regular Programme in the overall budget. The General Conference would have to approve the Regular Programme share in each of the biennial programme and budgets of the Organization.

35. As explained in chapter I above, any amendment to the provisions contained in Annex II to the UNIDO Constitution would be subject to an approval process by the legislative organs, which is likely to extend over a period of several years.

VI. ACTION REQUIRED OF THE COMMITTEE

36. The Committee may wish to take note of the information contained in the present report and recommend appropriate action to the Industrial Development Board.